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MEMORANDUM FOR: [redacted]

Attached is the paper on the Economic Situation in Bangladesh per your request.

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12 April 1974
(DATE)

FORM NO. 101 REPLACES FORM 10-101 WHICH MAY BE USED. (47)
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The Economic Situation in Bangladesh

Bangladesh's economy remains stagnant and government policies, population pressures, and soaring petroleum prices share most of the blame. Centralized planning -- state control of trade and nationalization measures -- have inhibited trade and made the climate for foreign private investment unattractive. Non-food imports have fallen far below domestic requirements, creating scarcities of raw materials, chemicals, and fuels urgently needed to put industry and agriculture back on its feet. Government revenues needed to stimulate the economy have also suffered since they are mainly derived from import duties and excise taxes on goods produced with the aid of imports. To finance government deficits, the money supply has been increasing at a rate of 30-35% annually and inflation is accelerating.

Increasing population pressures will continually make overall production gains illusive. The former will require the consumption-oriented government to remain preoccupied with foodgrain imports. As long as Bangladesh needs to make large commercial purchases of foodgrains abroad, foreign exchange resources for non-food imports will remain restricted.

Petroleum costs have exacerbated economic difficulties. Outlays for petroleum in CY 1974 will approximate $150 million, and will greatly disturb an already precarious trade structure.

Although Bangladesh is a good candidate for concessionary arrangements with petroleum exporting states, none have materialized. To maintain import volume at last year's level, Dacca must pay out an estimated $850 million this year. Export revenues, largely for jute and jute products, are expected to be on the order of $400 million, leaving a trade deficit of $450 million. Foreign exchange reserves of $160 million clearly will not be used to finance this year's deficit. Unless substantiall new foreign aid is forthcoming, resource diversion from development projects to finance more expensive imports will further frustrate economic development during the next few years.